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ANNIVERSARY

namco®

Annual Report 2004

For the year ended March 31, 2004



Profile

NAMCO LIMITED (NAMCO) traces its origins to the installation of two coin-operated horses in a department store in 1955. Ever since, NAMCO has consistently led the way in the development of amusement facilities, coin-operated game machines and theme parks—helping people experience the fun they have always dreamed of through numerous forms of entertainment. In recent years, rapid advances in information technology have significantly transformed entertainment equipment, as well as how and where people choose to play. True to its vision of being a highly creative organization, NAMCO is developing new modes of entertainment from many angles, giving free rein to its adaptable and wide-ranging product development capabilities. NAMCO is committed to meeting new challenges with its sights set on expanding its presence in the realm of global entertainment.

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Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of NAMCO LIMITED and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

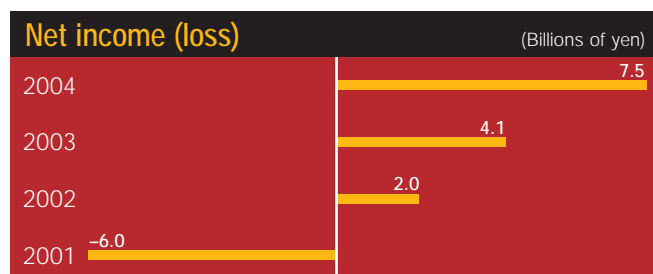
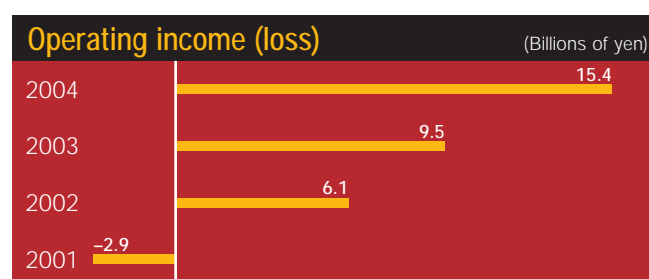
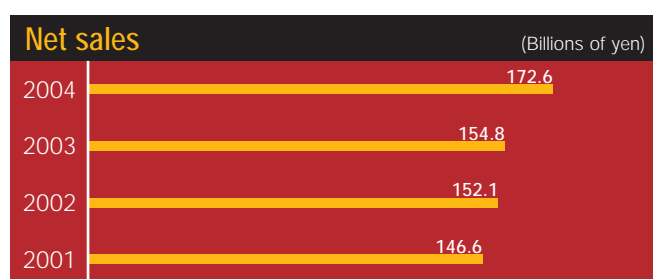


Financial Highlights

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
For the year:			
Net sales	¥154,777	¥172,594	\$1,553,781
Operating income	9,470	15,430	138,909
Net income	4,116	7,546	67,933
At year-end:			
Total assets	143,214	148,117	1,333,426
Shareholders' equity	96,647	101,811	916,556
	Yen		U.S. dollars
Per share of common stock:			
Net income (Primary)	¥ 72.35	¥ 133.00	\$ 1.20
Cash dividends applicable to the year	30.00	40.00	0.36

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥111.08=U.S.\$1.



To Our Shareholders

Message From the Chairman NAMCO Turns 50

NAMCO can trace its roots to the installation of two coin-operated wooden horses on a department store rooftop in 1955. Ever since, we have consistently led the way in commercializing numerous forms of entertainment, helping people experience the fun and enjoyment they have always dreamed of. And thanks to your support over the years in June 2004, NAMCO celebrated its 50th year of establishment.

My very own field experience at the forefront of the business supported my subsequent work in meeting the global need to inspire children, devise new modes of play, and assert the role of play in culture. And as I have watched our operations evolve over the years, I am convinced that the core of NAMCO's business has been our commitment to giving our very best, a point that has truly resonated with customers. That commitment is now ingrained in the mindset shared by NAMCO employees, as we strive daily to deliver the highest level of customer satisfaction.

NAMCO—Guided by an Unchanging Philosophy

While modes of play may have changed over the years, the entertainment we provide at NAMCO remains rooted in a philosophy driven by three fundamental principles. The first is that "to play is human," based on the concept of *homo ludens* coined by Dutch historian Johan Huizinga. The second is that the 21st century will be an "Era of Spirituality," a

perspective on the future proposed by French intellectual André Malraux. The third principle, which encapsulates NAMCO's economic philosophy, is that the tertiary industry sector spawns sectors of a higher order that provide people with added value.

Huizinga's insight was both an affirmation and source of encouragement for our work at NAMCO, and has made us more confident in our belief that play is in fact an intrinsic part of the human condition. Malraux's vision of the future hints at the arrival of a time when people will seek both spiritual fulfillment and question the very nature of this pursuit itself.

At NAMCO, these perspectives on humanity and its future are the pillars supporting our economic philosophy. This philosophy, in turn, has enabled us to position NAMCO as a pioneer in redefining the richness that a wide-ranging service industry provides. This new definition includes a third sector involving physical labor, a fourth sector appealing

to intellect and a fifth that engages the emotions. And beyond the fifth sector, which is actually a manifestation of the self, we believe is a sixth service sector, one which stimulates greater consciousness and spiritual awareness. In our quest to develop and commercialize these higher order service domains, we will remain true to our overarching mission—to contribute to the emergence of a more fulfilling and optimistic society.

Growing as an Entertainment Company

Fun is our business at NAMCO, and that business is growing—both from a geographical viewpoint and in terms of our business domains. A case in point is food theme parks, pioneered by us and based on the conviction that food is an integral part of culture. Customers have been enthusiastic in their support of these theme



Masaya Nakamura
Chairman and
Chief Visionary Officer

parks. What's more, such parks have proven a powerful means to draw in the crowds needed to reinvigorate certain regions. These two qualities have made companies in every sector sit up and take notice, with many now highly expectant of what this business model will accomplish next. And in human services, nursing care and the environment (or ecology)—three fields that exemplify 21st-century industries—we are confident that NAMCO's distinctive concept of the sixth service sector can be applied to unlock the potential of businesses to provide greater added value.

NAMCO's bold corporate philosophy will serve as a beacon for exploring the far reaches of fun as we set our sights on the global stage. And we stand firm in our commitment to redouble efforts to create entertainment that exudes charm and appeal as part of a determined quest to raise corporate value.



September 2004
Masaya Nakamura
Chairman and Chief Visionary Officer

Message From the President Overview of Fiscal 2004

The NAMCO Group posted top- and bottom-line growth in fiscal 2004, ended March 31, 2004. Operating income surged ¥5,960 million, or 62.9%, to ¥15,430 million on net sales of ¥172,594 million, a rise of ¥17,817 million, or 11.5%, year on year. Net income climbed ¥3,430 million, or 83.3%, to ¥7,546 million.

Our commercial business, comprising the Coin-Operated Game Machines and Amusement Facility Operations segments, together with overseas sales in the Home Videogame Software segment, were the main areas driving profits during the year.

Other standout performers included the mobile phone content distribution business, an area we have focused on in recent years. This business continued to steadily boost membership, while the overseas content distribution business also posted steady growth. In the Movies and Graphics segment, restructuring efforts aimed at rebuilding the earnings base paid off with a return to profitability on an operating income basis. Restaurant Operations also posted operating income in the year under review.

Meanwhile, food theme parks, which NAMCO pioneered, are gaining attention for their powerful ability to attract customers and breathe new life into local economies. These parks also recorded steady growth, both in terms of popularity and performance.

Progress With the Medium-term Management Plan

Supported by these strong results during the year under review, we continued to roll out our three-year medium-term management plan launched in May 2002. The underlying goal of this plan is to put NAMCO back on the path to growth. We have focused on a number of themes to achieve this objective: the optimal allocation of resources to business fields with promising growth prospects (home videogame software sales, web & mobile content, and LCD units for pachinko and pachislot machines); improving the profitability of core businesses (Coin-Operated Game Machines and Amusement Facility Operations); up-front investments to develop new businesses; and a multi-use content strategy designed to strengthen and leverage our portfolio of content. In 2002, we put in place a new internal company system to maximize earnings by increasing the autonomy of each in-house company. I believe the fruits of this new system are steadily emerging as we work toward the final goal of the plan: record net income for the NAMCO Group in the year ending March 31, 2005.

Going forward, each NAMCO Group business will focus on the following six medium- and long-term management initiatives.

- ① Boost the NAMCO share price, maximize Group profits and aim to deliver ROE of 15% by injecting added value into the business
- ② Realize highly profitable earning structures at the Group's three core businesses: Coin-Operated Game

Amusement Facility Operations

- ③ Strengthen NAMCO's ability to identify and cultivate new businesses
- ④ Reinforce and develop the multi-use content strategy
- ⑤ Build and enhance the operations of personnel and training systems to create the drive and morale needed to implement business strategies
- ⑥ Strengthen the strategy for NAMCO subsidiaries based on clearer management responsibility and a review of resource allocation

Strengthening the Operating Structure to Generate Maximum Profits

In order to maintain the momentum we achieved during the year under review, we will have to build an operating structure that flexibly responds to far-reaching changes in our business environment and that gives more autonomy to each Group company. This structure will allow us to generate maximum profits.

In Home Videogame Software, we will implement a strategy that will ensure a stable level of profits regardless of changes in the business environment. In Coin-Operated Game Machines, Amusement Facility Operations and the Incubation Center, we will reinforce the operating structure to allow us to respond rapidly to shifts in the market and raise customer satisfaction. Effective April 1, 2004, we established the Content Expansion (CX) Company by merging the WMC Company and the P-7 Company. This move was designed to help us generate maximum profits through the multi-use of content assets and to create a structure that gives

full play to the abilities of our team of content creators. This company will spearhead our move into new business fields through the secondary adaptation of existing content.

In parallel with these initiatives, we have established the Corporate Strategic Planning Office and the Corporate Office. These new departments will enhance NAMCO's management strategy and management capabilities, and promote organizational streamlining.

Creating New Value to Drive Growth

Guided by the basic philosophy of our founder during the 50 years since we were established, we have developed new places for entertainment, new toys and new modes of play that have been designed to respond to the ever-changing approach to play and to offer greater value. Today, we now support people's lives in diverse ways through businesses in the human services, movies and graphics, environment and restaurant

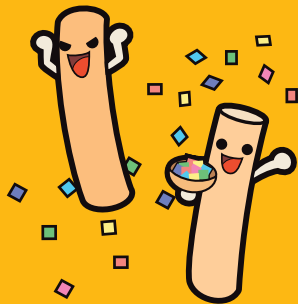
fields. In all these areas we have introduced an element of entertainment and play to people's lifestyles. Remaining true to this approach in the years ahead, we will take NAMCO to the next stage of growth and generate greater corporate value.


September 2004

Kyushiro Takagi
President and Chief Executive Officer

Kyushiro Takagi
President and
Chief Executive Officer





時間
T I M E

Creating Quality

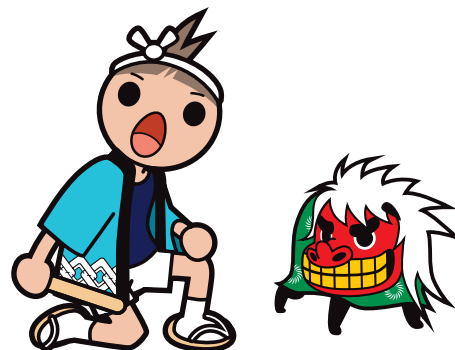
空間
S P A C E

世界
W O R L D

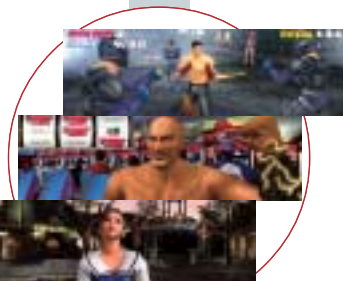


Products and services that put fun into everyday life

Creating Quality TIME



Taiko no Tatsujin 5



Pachi-slot Tekken



Italian Tomato Café Jr.

Coin-Operated Game Machines

In this business segment, NAMCO leverages its storehouse of technologies and experience in the development and sale of game machines, backed by advanced R&D and unique planning capabilities. Close ties between R&D divisions and earnings generators, and a steadfast commitment to addressing diverse customer needs, has enabled NAMCO to sustain the profitability of this business amid these rapidly changing times. Driven by the concept, "From Amusement to Entertainment," NAMCO is intent on broadening the scope of enjoyment by developing a new variety of game machines.

Home Videogame Software

The focus of this business is the creation of game software that delivers hours of enjoyment in the home. Here, NAMCO

merges the elements of product planning, programming, graphics and sound into an integrated software development system. This system gives NAMCO a decisive edge in game software development, enabling it to produce high-quality software titles. This business, however, encompasses more than just the creation of software products for the global market. NAMCO devises game console peripherals and strategy guides, and aggressively pursues a media-mix strategy based on tie-ups with comics, movies and other media from the earliest planning stages, to create a full lineup of home entertainment.

Mobile Phone Content Distribution

NAMCO is positioning communication network-related devices as a major next-generation platform amid the build-out of new telecommunications infrastructure



Through its amusement facilities, home videogame software, mobile phone content, movies, restaurants and other products and services, NAMCO brings fun and quality time to everyday lives.

and innovations in mobile device technology. Propelled by the concept, "With Anyone, Anytime, Anywhere" NAMCO is determined to develop a content distribution business based on existing software assets and new specialized content. NAMCO is hard at work preparing future services, with plans to develop a content business that encompasses the full range of mobile network media.

Human Services

NAMCO advocates "barrier-free entertainment," which seeks to integrate entertainment and social welfare (human services) into a single concept. To this end, the company has actively taken part in businesses related to education and human services. *Wani Wani Panic RT*, designed exclusively for elderly players, was one example of a game machine developed during the year under review that conforms

to NAMCO's "barrier-free entertainment" approach. What's more, NAMCO offers support to many people in their daily lives through human services, devices and everyday items created with the special needs of the elderly and physically challenged in mind. NAMCO also set up *Hustle Club*, a Website for exchanging useful information on elderly care as the aged society increasingly becomes a reality.

Movies and Graphics

As a specialist in visual entertainment, Nikkatsu Corp., a NAMCO Group company, is engaged in several businesses, including movie production, distribution and promotion, the production and sale of packaged software, and satellite broadcasting. In fact, nearly 30% of the movies, TV shows, commercials and other visual productions in Japan are filmed at Nikkatsu's studios in Chofu, Tokyo.

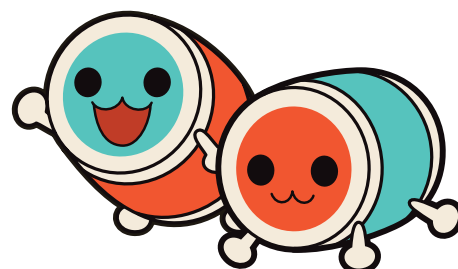
Restaurant Operations

Italian Tomato restaurants provide the ideal atmosphere for a chic meal and a relaxing time, with layouts that exude a sense of simplicity that appeals to young women, the target customer base. While society rapidly grows more sophisticated and high-tech, Italian Tomato is dedicated to giving the attentive service customers still crave. This level of service explains the immense popularity of these restaurants amid increasingly fierce industry competition.

In recent years, Italian Tomato has been aggressively opening *Italian Tomato Café Jr.* restaurants; self-service restaurants offering premium coffee and delicious food at reasonable prices, and all without the wait.

Unparalleled amusement venues brimming with entertainment

Creating Quality LOCATIONS



Jiyugaoka Sweets Forest



LEDZONE



Shima-Shima Town

Amusement Facility Operations

Creating inviting entertainment spaces

NAMCO amusement facilities are more than just places to install and operate amusement machines. These facilities are sites where entertainment can spawn new opportunities for people to meet and interact. As a comprehensive creator of amusement facilities, NAMCO is striving to offer more attentive and inviting services, creating entertaining environments that befit their role as "communication spaces."

The NAMCO Group is spreading its brand of entertainment around the world, with a global network totaling 1,845 amusement facilities as of March 31, 2004. They include 563 facilities under NAMCO Group management, 1,280 facilities operated under revenue-sharing agreements, and two theme parks.

Innovative concepts for new retail formats

NAMCO is offering new modes of play through the development of innovative retail formats. One such format gives visitors the chance to star in their own virtual drama, participating in events as the story unfolds to create an experience unlike any other.

In 1996, NAMCO presented customers with yet another exciting opportunity to step off the beaten entertainment path with the opening in Ikebukuro, Tokyo of *NAMCO Namja Town*, Japan's largest indoor theme park. This site features unique attractions and a variety of fun objects set in a backdrop designed to emulate the narrow streets of an old town. The result is an immersive environment that customers can enjoy throughout the entire park. NAMCO's expertise in this area was also instrumental in the creation



NAMCO's amusement facilities and food theme parks are more than just places to install machines and attractions, they are quality locations that entertain thousands by offering totally new experiences and opportunities to interact.



of new entertainment spaces, including *Shima-Shima Town*, a "communication park" for pre-school children planned in collaboration with Benesse Corporation, and *Internet Space Chi-Kou-Raku*, an Internet café.

Food Theme Parks

Spaces where food and entertainment converge

NAMCO recognizes that food is culture in itself. This thinking prompted our development of food theme parks: spaces that emphasize delicious food and good times over the mere physiological need to eat. Spotlighting familiar food genres such as ramen noodles and *gyoza* (Chinese dumplings), these parks satisfy both the gourmet leanings and curiosity of visitors by providing the opportunity to sample select menus and unique flavors found nowhere else.

Creating sites with attention to detail

The development of food theme parks is now vested in Team Namja, a group formed in 2001 that specializes in the creation of new commercial and entertainment spaces. Besides projects for NAMCO, Team Namja has also offered its high-level creative skills and related expertise to provide spaces for commercial developments and other businesses. The team's efforts earned it the highest spot in "Cultural Creativity," a category in a survey by the Nikkei Research Institute of Industry and Markets ranking new products launched in the first quarter of fiscal 2004.

The defining feature of NAMCO food theme parks is the way that these facilities bring a storybook atmosphere to life based on a single theme, immersing visitors in a tangible environment pleasing not only to the palette, but to all the senses. For example, *Ikebukuro Gyoza Stadium*, *Naniwa Men Darake* (Osaka

Noodles City), and *Akashi Ramen Hatoba* (Akashi Ramen Dock), to name a few food theme park attractions, are all places designed to immerse visitors in the illusion of having suddenly stepped into a completely different time and place. Each attraction offers genuine flavors from some of Japan's most famous shops in their respective food genres, providing visitors with a fun and satisfying experience beyond simply eating gyoza or ramen. Other attractions like *Ice Cream City* and *Jiyugaoka Sweets Forest*, catering to young women, have ambiance, menus and merchandise on offer that have each struck a chord with park visitors.

NAMCO food theme parks are attracting attention for their powerful ability to draw in customers and revitalize local economies. Today, NAMCO has produced 10 theme parks across Japan, each of which has proven immensely popular and boasts an outstanding track record.

The spread of entertainment that transcends borders

Creating Quality **WORLDWIDE**



MotoGP 3



Pactones



Zun yi guo mao guang chang dian

North America

In fiscal 2004, ended March 31, 2004, NAMCO posted sales in North America of ¥37.8 billion, accounting for 21.9% of total net sales. Expansion strategies will now take center stage as NAMCO moves to grow this share further. NAMCO Holding Corp., the company's North American arm, is responsible for managing both NAMCO's intellectual property and local subsidiaries in the region. Business activities include the sale of coin-operated game machines and home videogame software, as well as amusement facility operations.

NAMCO America Inc. is involved in the Coin-Operated Game Machines business, developing, manufacturing and selling amusement machines in the United States, and exporting machines to Canada and a number of Central and South American countries.

In Home Videogame Software, NAMCO Hometek Inc. operates as a game software publisher in the United States. As needs grow for the localization of game content and content tailored to local preferences, our people in the U.S. and Japan are busy developing a greater volume of content. And recently, NAMCO Hometek has been aggressively augmenting its R&D divisions, broadening its capacity to act as a development house for licensed software projects.

Amusement Facility Operations are entrusted to subsidiary NAMCO Cyberentertainment Inc., the largest such operator in the United States. Bringing together food, drink and amusement is XS Entertainment Inc., a company that operates large-scale entertainment facilities that host a variety of events. As of March 31, 2004, there were 1,172 amusement facilities in North America, including 206



Supported by a framework that has driven global expansion, NAMCO has transcended borders and cultural differences to respond to the universal need for fun and entertainment by offering quality products and services worldwide.



directly managed locations and 966 operating under revenue-sharing agreements.

Europe

In fiscal 2004, NAMCO's sales in the European market totaled ¥6.0 billion. While this only accounted for 3.5% of total net sales, our business in Europe was profitable on an operating income basis in the year under review. NAMCO is now eyeing Europe as a region where it can increase its market share. In Coin-Operated Game Machines, game machine production and sales are conducted by NAMCO Europe Ltd., which also exports machines throughout Europe as well as to Africa.

In Amusement Facility Operations, responsibility for facility operations is vested in U.K.-based subsidiary NAMCO Operations Europe Ltd. and subsidiary NAMCO Operations Spain S.L. The business scope of these companies covers the

operation of a range of facilities, including bowling alleys, billiard halls, bars, amusement centers and other leisure complexes.

Home Videogame Software sales to the European market are managed by a local liaison office, since NAMCO does not currently have a local subsidiary specializing in the sale of home videogame software.

Asia

Hong Kong is NAMCO's main business area in the Asia region. Despite modest sales of ¥555 million in fiscal 2004, operating income moved into positive territory for the year under review. The Asia market holds much promise in the coming years as NAMCO cultivates operations in other areas of the Chinese market.

NAMCO is currently developing amusement facilities via bases in Hong Kong and Shanghai. As of March 31, 2004, there were 24 amusement facilities

in Asia, 15 directly managed locations and 9 operating under revenue-sharing agreements.

Highlight: Taking Mobile Content Into Overseas Markets

NAMCO is actively distributing game content in overseas markets by building ties with leading telecommunication carriers.

In December 2003, Verizon Communications, the largest mobile phone carrier in the U.S., began distribution of *Pac-Man* game content, followed by *Pac-Tones*, downloadable ringtones, in March 2004. Distribution is also under way to prominent carriers based in Germany, Spain, the U.K., France and the Netherlands. As a result, NAMCO now offers its content distribution services to around 220 million mobile phone subscribers in 18 countries.

Directors and Statutory Auditors

Chairman and Chief Visionary Officer

Masaya Nakamura*

President and Chief Executive Officer

Kyushiro Takagi*

Executive Vice President

Akiyoshi Sarukawa*

Senior Managing Director

Masahiro Tachibana*

Managing Directors

Keiji Tanaka

Shukuo Ishikawa

Directors

Jun Higashi

Shigeichi Ishimura

Corporate Auditors

Shigeru Yamada

Koichiro Homma

Mitsuo Ichikawa

Osamu Sudo

Managing Executive Officers

Yoichi Haraguchi

Keishi Degawa

Executive Officer

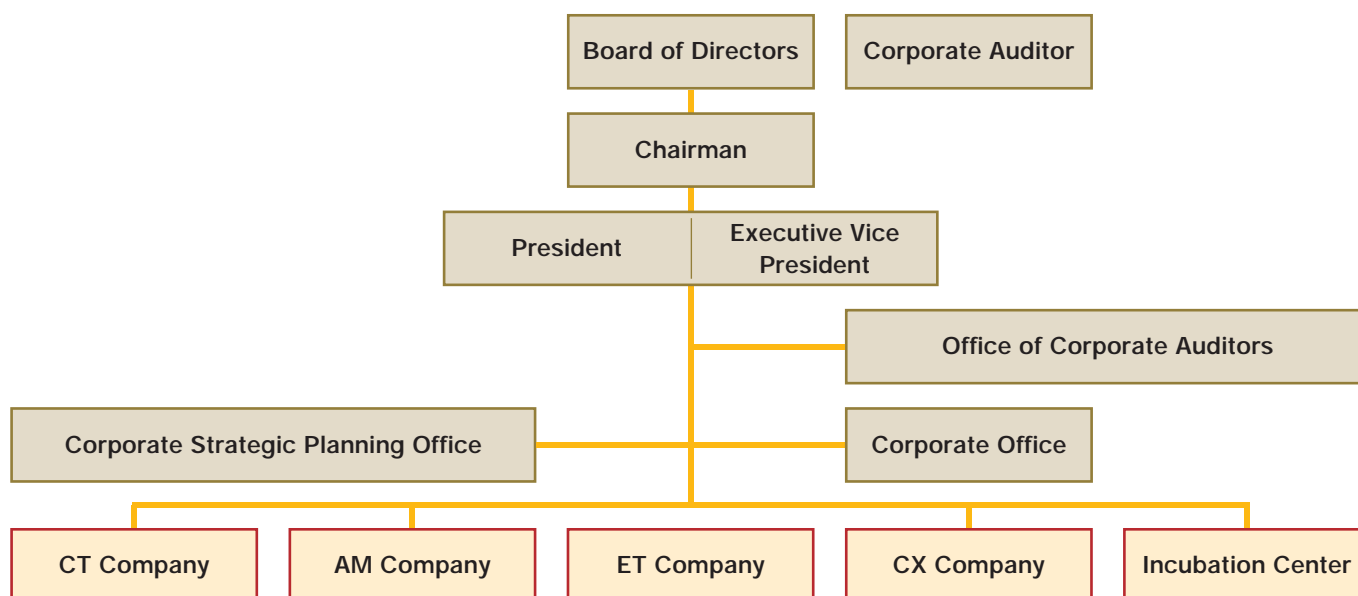
Keiji Azuma

**Representative Directors*

(As of June 28, 2004)

(The above directors serve as division executives)

Organization



Financial Section

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Six-year Summary

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2004	2004
For the year:							
Net sales	¥145,517	¥148,066	¥146,554	¥152,136	¥154,777	¥172,594	\$1,553,781
Cost of sales	111,988	113,132	120,738	117,283	117,248	123,506	1,111,865
Selling, general and administrative expenses	25,258	28,214	28,682	28,720	28,059	33,658	303,007
Operating income (loss)	8,271	6,720	(2,866)	6,133	9,470	15,430	138,909
Income (loss) before income taxes	7,914	12,671	(9,196)	2,952	7,686	13,250	119,283
Income taxes	4,348	6,383	(3,196)	917	3,570	5,704	51,350
Net income (loss)	3,566	6,288	(6,000)	2,035	4,116	7,546	67,933
At year-end:							
Total assets	144,120	168,567	138,962	144,140	143,214	148,117	1,333,426
Current assets	64,713	73,266	51,261	61,346	68,089	73,614	662,711
Fixed assets	79,407	95,301	87,701	82,794	75,125	74,503	670,715
Current liabilities	39,174	38,761	30,275	29,659	35,920	33,860	304,825
Long-term liabilities	13,052	12,365	9,383	16,734	8,894	9,638	86,767
Shareholders' equity	89,566	99,774	91,646	96,133	96,647	101,811	916,556
Common stock	26,997	27,369	27,369	27,369	27,369	27,369	246,390
Retained earnings	37,143	46,383	39,279	41,251	43,429	49,195	442,879
	Yen						U.S. dollars
Per share of common stock:							
Net income (loss):							
Primary	¥ 65.82	¥ 115.00	¥ (109.09)	¥ 36.95	¥ 72.35	¥ 133.00	\$ 1.20
Fully diluted	62.24	109.06	—	35.97	70.12	130.61	1.18
Cash dividends applicable to the year	30.00	30.00	15.00	17.00	30.00	40.00	0.36
Number of shares outstanding (thousands)	54,828	55,068	55,087	55,087	55,087	55,087	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥111.08=U.S.\$1.

Management's Discussion and Analysis

Overview

Scope of Consolidation

The NAMCO Group is active in the amusement field on a global scale and comprises 25 companies: the parent company, NAMCO LIMITED, 22 subsidiaries, of which 21 are consolidated and one is an equity-method affiliate, and two affiliates, to which the equity method does not apply.

The NAMCO Group classifies its activities into six business segments: Coin-Operated Game Machines, Home Videogame Software, Amusement Facility Operations, Restaurant Operations, Movies and Graphics, and Other.

Coin-Operated Game Machines

This business segment develops, produces and sells a wide range of amusement machines, from large and medium-size simulation games, small video games and electro-mechanical games, to prize-crane pusher games, medal-collecting games and rides. This segment also includes a business that develops software for LCDs used in pachinko and pachi-slot machines. The parent company and four subsidiaries are responsible for business activities in this segment.

NAMCO licenses out the development, production and commercialization of coin-operated amusement machines. Consolidated U.S. subsidiary, NAMCO Holding Corp., under license from NAMCO, develops, produces and commercializes these machines. NAMCO and consolidated U.S. subsidiary NAMCO America Inc. are responsible for the development of coin-operated amusement machines. NAMCO, NAMCO America, U.K.-based consolidated subsidiary NAMCO Europe Ltd., and Chinese equity-method affiliate Shanghai NAMCO Ltd.

manufacture and sell these machines. NAMCO purchases some coin-operated amusement machines, components and other products manufactured by Shanghai NAMCO, and sells PCB kits, the key component of these machines, to NAMCO America and NAMCO Europe.

Home Videogame Software

This business segment makes and provides high-quality software products on a worldwide basis, including software for videogame consoles, software for the growing PC market and content for mobile phones. The segment also includes businesses that work with partners from the planning stage in the development of peripheral devices, game strategy guides, comics and movies. The parent company and four subsidiaries are responsible for business activities in this segment.

NAMCO licenses out the production, sale and commercialization of home videogame software. NAMCO Holding, under license from NAMCO, carries out the production, sale and commercialization of software at consolidated U.S. subsidiary NAMCO Hometek Inc. In addition to the parent company, domestic consolidated subsidiaries Monolith Software Inc. and NAMCO Tales Studio Ltd., and NAMCO Hometek develop new videogame software. NAMCO and NAMCO Hometek produce and sell software, while NAMCO develops and sells content for mobile phones.

Amusement Facility Operations

This segment manages amusement facilities, operates coin-operated game machine businesses under revenue-sharing agreements, manages urban and food theme parks, and

Net sales

(Millions of yen)



Cost of sales

(Millions of yen)



operates game centers. The parent company and seven subsidiaries are responsible for business activities in this segment.

In addition to NAMCO, a number of Group companies are involved in amusement facility management. These include consolidated subsidiaries U.S.-based NAMCO Cybertainment Inc. and XS Entertainment Inc., U.K.-based NAMCO Operations Europe Ltd., Spain-based NAMCO Operations Spain S.L., and China-based NAMCO Enterprises Asia Ltd. and Shanghai NAMCO Ltd. NAMCO, NAMCO Cybertainment and NAMCO Enterprises Asia manage businesses operating under revenue-sharing agreements. NAMCO operates the Group's urban and food theme parks, while amusement arcades are managed by domestic consolidated subsidiary St. Tropez Ltd. NAMCO Operations Europe oversees the running of amusement facilities in the European market.

Restaurant Operations

Domestic consolidated subsidiary Italian Tomato Ltd. manages restaurants and related franchise operations.

Movies and Graphics

Domestic consolidated subsidiary Nikkatsu Corp. is responsible for the Group's activities in this area, which include movie production, distribution and promotion, the production and sale of packaged software, and a satellite broadcasting business.

Other

NAMCO Group companies are involved in a diverse range of businesses in this segment. NAMCO: welfare and nursing care for the elderly; domestic consolidated subsidiary NAMCO

Trading Ltd.: installation and operation of vending machines and mobile phone content distribution; Yunokawa Kanko Hotel Co., Ltd.: tourist hotel management; St. Tropez: real estate leasing; domestic consolidated subsidiary NAMCO Ecolotech Ltd.: development and sale of environmental equipment and the sale of related products; and, domestic consolidated subsidiary Mil Ltd.: comprehensive service provision including real estate management, insurance agency services and office support for the NAMCO Group.

Operating Results

In the year under review, the market in NAMCO's core operating field, the amusement industry, was strong, supported by higher footfall at amusement facilities and other factors. Customers are increasingly returning to this form of entertainment because it is affordable, accessible and fun. Despite continuing robust demand in overseas markets such as North America and Europe, the Home Videogame Software business continued to face stagnating demand in Japan due to the slowing penetration of the PlayStation 2 (PS2) console and the lack of hit software titles to drive market growth.

In this environment, the NAMCO Group placed priority on three themes: the optimal allocation of resources to business fields with good growth prospects (home videogame software sales, web & mobile content, and LCD units for pachinko and pachislot machines); improving the profitability of core businesses (coin-operated game machine sales and amusement facility operations); and up-front investments to develop new businesses in support of NAMCO's medium- to long-term growth. The Group put in place a structure to maximize earnings by

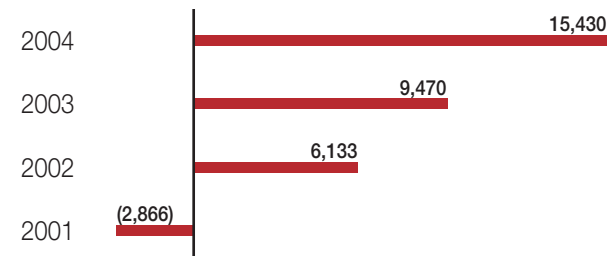
Selling, general and administrative expenses

(Millions of yen)



Operating income (loss)

(Millions of yen)



increasing the autonomy of each in-house company. Regarding subsidiaries, guidance provided by head office has been increased and a management system has been adopted for each business field to encourage subsidiaries to make a greater contribution to consolidated results. Other steps were taken to clarify management responsibility and reorganize subsidiaries.

NAMCO posted a year-on-year increase in net sales of ¥17,817 million, or 11.5%, to ¥172,594 million. Although the cost of sales rose to ¥123,506 million, the increase was held to 5.3% year on year. As a result, gross profit was ¥49,088 million, an increase of ¥11,559 million, or 30.8%.

Selling, general and administrative (SG&A) expenses rose ¥5,599 million, or 20.0%, to ¥33,658 million. This increase was primarily the result of higher R&D and advertising expenses to maintain the NAMCO Group's competitiveness in a maturing market environment. Operating income increased ¥5,960 million, or 62.9%, to ¥15,430 million.

NAMCO booked other expenses of ¥2,727 million for fiscal 2004. Although the revaluation loss on investment securities declined ¥330 million compared with the previous period, this was outweighed by amortization of goodwill of ¥485 million related to NAMCO Tales Studio Ltd., a revaluation loss on property and equipment of ¥748 million at XS Entertainment Inc., and other factors. As a result, NAMCO reported net income of ¥7,546 million, an increase of ¥3,430 million, or 83.3% year on year.

Segment Information

Coin-Operated Game Machines

In amusement equipment in Japan, sales of the multi-player

Dragon Chronicle were well above target, helping to drive growth. Other standout performers included *Taiko no Tatsujin 5*, the latest version of this popular musical drumming game; a new prize-crane pusher game, *Big Sweet Land*; and repeat titles such as *Sweet Land 4* and the *Petter the Shepherd* medal-collecting game machine. Overseas, *Time Crisis 3* sold well in Europe and North America, while *Ms. Pac-Man/Galaga* and other repeat titles posted strong sales in the U.S.

In the pachinko and pachislot LCD business, upcoming changes in regulations in July 2004 related to the approval of new machines and other areas in the industry meant NAMCO was forced to alter the way some products are made, leading to some launch delays. As a result, the *Pachi-slot Tekken* LCD display unit was the only product generating sales during the year under review.

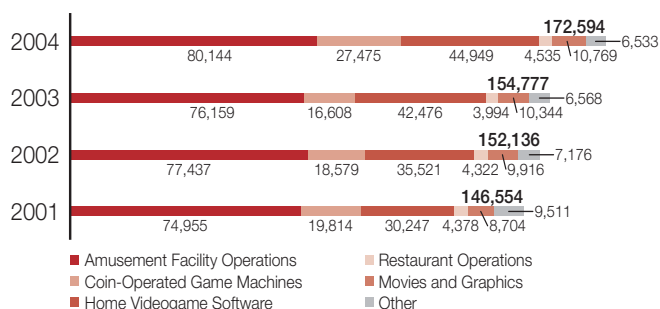
Coin-Operated Game Machines posted net sales of ¥26,991 million, ¥10,736 million or 66.0% higher year on year. Operating income surged ¥5,511 million or 466.6%, to ¥6,692 million.

Home Videogame Software

Supporting results in this segment was the multi-format title targeted at overseas markets, *Soul Calibur II*. NAMCO sold more than 3 million units in Europe and North America during the year under review. Other products posting strong results in fiscal 2004 included *Kill.Switch*, a new title developed by NAMCO Hometek for the PS2 and Xbox, and continuing robust sales of repeat titles and lower-priced versions. In Japan, the popular *Taiko no Tatsujin* series for the PS2 performed well, supported by two new title launches during the year: *Taiko no Tatsujin Appare San Daime* and *Taiko no Tatsujin Waku-Waku Anime*

Net sales by segment

(Millions of yen)



Net sales by segment

	Millions of yen			
	2001	2002	2003	2004
Sales by segment				
Amusement Facility Operations	¥ 74,686	¥ 77,181	¥ 75,900	¥ 79,891
Coin-Operated Game Machines	19,344	18,291	16,255	26,991
Home Videogame Software	30,220	35,520	42,476	44,768
Restaurant Operations	4,282	4,229	3,827	4,430
Movies and Graphics	8,687	9,903	10,132	10,587
Other	9,355	7,012	6,187	5,927
Total	¥146,554	¥152,136	¥154,777	¥172,594
Overseas sales*				
Overseas sales	¥ 40,239	¥ 48,853	¥ 48,979	¥ 52,898
Net sales	146,554	152,136	154,777	172,594
Percentage of net sales	27.5%	32.1%	31.6%	30.6%

*Overseas sales include exports and sales by overseas subsidiaries.

Matsuri. As a result, combined full-year sales of all four titles in the series reached two million units. Meanwhile, *Donkey Konga*, developed jointly for Nintendo's GameCube, was well received by the market. However, sales of some new titles struggled, including the multi-format *R: RACING EVOLUTION* and *Baten Kaitos* for the Nintendo GameCube. Toward the end of the fiscal year, NAMCO released *Katamari Damacy*, which attracted interest in the industry for its new style of game play. In Europe, sales of *Time Crisis 3* were above target.

In mobile phone content, a new *Taiko no Tatsujin* game download site for NTT DoCoMo mobile phone users launched in Japan in April 2003 performed well. This service was later offered to KDDI mobile phone users in November of the same year, and to Vodafone subscribers in February 2004. Other new sites launched during fiscal 2004 were *Baukko DX* in June 2003 and a site to coincide with the launch of a new *Dragon Chronicle* coin-operated game machine in December 2003. These developments helped to attract new members, with fee-paying subscribers totaling approximately 836,000 as of March 31, 2004, compared to around 550,000 at the end of the previous year.

Overseas, NAMCO used its subsidiaries to actively push its game content for mobile phones to leading mobile phone carriers. In the U.S., the company signed new deals with the country's largest carrier, Verizon Communications, to start distribution services for *Pac-Man* game content in December 2003, and a ringtone download site called *Pactones* in March 2004. Similar services got under way to leading carriers in Germany, Spain, the U.K., France and the Netherlands. As a result, NAMCO now offers its content distribution services to around 220 million mobile phone subscribers in 18 countries.

Operating income by segment

	Millions of yen			
	2001	2002	2003	2004
Operating income by segment				
Amusement Facility Operations	¥ (821)	¥ 2,087	¥ 4,774	¥ 6,897
Coin-Operated Game Machines	(3,207)	1,494	1,181	6,692
Home Videogame Software	4,855	7,750	9,197	7,025
Restaurant Operations	131	(65)	34	101
Movies and Graphics	125	(150)	(411)	191
Other	(436)	(1,374)	(1,023)	(620)
Elimination	294	229	(106)	(109)
Total	¥ 941	¥ 9,971	¥ 13,646	¥ 20,177
Unallocated administrative expenses	¥ 3,807	¥ 3,838	¥ 4,176	¥ 4,746
Operating income (loss)	¥ (2,866)	¥ 6,133	¥ 9,470	¥ 15,430

Home Videogame Software posted net sales of ¥44,768 million, ¥2,292 million or 5.4%, higher than the previous year. Operating income declined ¥2,172 million or 23.6%, to ¥7,025 million.

Amusement Facility Operations

In domestic amusement facility operations, there was a large year-on-year increase in sales at existing locations due to the efficient introduction of new coin-operated game machines, steps to bolster facility management and draw in more customers, as well as a cost-reduction program. Prize-crane pusher games, medal-collecting games and photo-seal printing machines were the main drivers of sales growth.

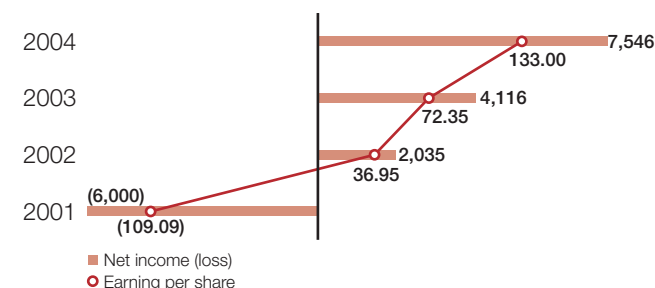
In North America, while full-year operating results at XS Entertainment, an operator of directly managed amusement facilities (restaurant hybrid locations) in Orlando, Florida, were below target, NAMCO Cybertainment posted full-year operating results ahead of initial targets, primarily on the back of expansion in the revenue-sharing network, the closure of unprofitable locations, and other cost-reduction measures. Effective October 2003, NAMCO sold NAMCO Operations France S.A., withdrawing from amusement facility management in France. As a result of this move, NAMCO is now only involved in amusement facility management in the U.K. and Spain in Europe.

In Asia, although there was a tough start to the year due to the impact of SARS, sales recovered after the announcement that the outbreak had been brought under control.

Food theme parks, pioneered by NAMCO, are attracting attention for their ability to draw in customers and revitalize local economies. NAMCO's food theme parks performed well during

Net income (loss) and Earning per share

(Millions of yen/Yen)



the year, with *NAMCO Namja Town*, which includes popular attractions *Ikebukuro Gyoza Stadium* (Chinese dumplings) and *Ice Cream City* (ice cream), in Tokyo's Toshima Ward delivering strong results. Recent openings along a food theme included *Naniwa Men Darake** (noodles) in Osaka in October 2003, *Jiyugaoka Sweets Forest** (desserts) in Tokyo in November 2003, *Akashi Ramen Hatoba** (noodles) in Hyogo Prefecture in December 2003, and *TUGARU RAMEN KAIDO** (noodles) in Aomori Prefecture in February 2004. All these new facilities opened strongly in terms of both customer footfall and operating results.

*Planned and developed by NAMCO but owned and operated by companies not affiliated with the NAMCO Group.

Amusement Facility Operations posted net sales of ¥79,891 million, ¥3,991 million or 5.3% higher year on year. Operating income rose ¥2,123 million or 44.5%, to ¥6,897 million.

Restaurant Operations

During fiscal 2004, Italian Tomato placed emphasis on opening *Italian Tomato Café Jr.* restaurants; self-service restaurants offering reasonably priced coffee and pasta dishes. Meanwhile, 27 underperforming locations were closed, comprising five directly managed restaurants and 22 franchised locations. As of March 31, 2004, there were 265 restaurants in the chain, comprising 52 directly managed restaurants and 213 franchised restaurants.

Restaurant Operations posted net sales of ¥4,430 million, ¥603 million or 15.8% more than a year earlier. Operating income jumped ¥67 million or 197.1%, to ¥101 million.

Movies and Graphics

During the year under review, two movies produced by Nikkatsu Corp. were released: *SHARA* and *Shoronagashi*. In packaged software sales, Nikkatsu released 84 titles in the rental market, including two topical new movies, *Double Agent* and *Hable con Ella*. In the retail market (general retail stores), 72 titles were released, driving sales higher. Sales of *Complete of David Beckham* published by the football and sports-oriented DVD video label *Fantasista* were particularly strong.

Movies and Graphics recorded net sales of ¥10,587 million, ¥455 million or 4.5% up on fiscal 2003. The segment reported operating income of ¥191 million, the first profit in two fiscal years.

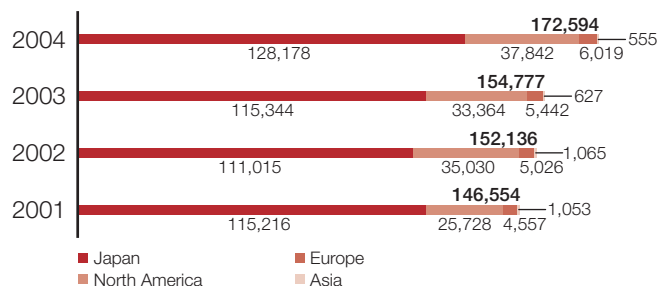
Other

During fiscal 2004, NAMCO, led by the Incubation Center, focused on launching and developing new businesses, including *Namcopolo*, a travel website, *Cooking Island*, an entertainment community website themed around food, and *TalkingAid IT*, a mobile welfare and communications device that incorporates phone and e-mail functions. The center also opened *LEDZONE*, a new format centered on network gaming, and focused on establishing the format and attracting customers. In welfare-related game machines, NAMCO also introduced *Wani Wani Panic RT*, its first machine exclusively designed for the elderly. A basic agreement was signed with a specialist welfare and medical device retailer to expand sales of this product using its nationwide sales network.

In the vending machine installation business, sales were strong on the back of active efforts to install machines at new

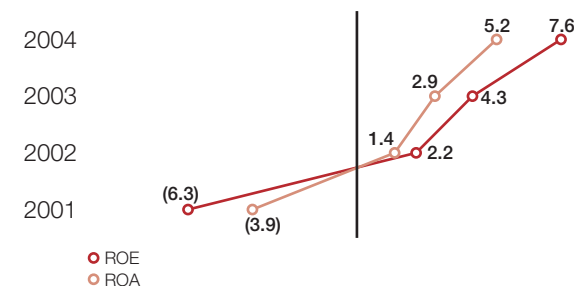
Net sales by region

(Millions of yen)



ROE and ROA

(%)



locations. Yunokawa Kanko Hotel completely renovated its main building during the year to attract more customers. In the environmental equipment business, sales of raw waste disposal equipment were sluggish, but overall sales were supported by efforts to sell automatic hand-towel dispensers.

The Other segment posted net sales of ¥5,927 million, ¥260 million or 4.2% less than the previous fiscal year. Although the segment recorded an operating loss of ¥620 million, this represented an improvement of ¥403 million year on year.

Sales by Region

Japan

In Coin-Operated Game Machines, sales of *Taiko no Tatsujin 5*, *Dragon Chronicle* and other products were robust. In a standout success, *Ka-Cho-Fu-Getsu* became the best-selling photo-seal printing machine on the market based on extensive user research targeting female senior high-school students.

In Home Videogame Software, the *Taiko no Tatsujin* series remained popular, with the four titles in the lineup posting combined full-year sales of two million units as of March 31, 2004. Other strong performers were *Necchu! Pro Baseball 2003* launched in April 2003, and *Donkey Konga*, a title released by Nintendo but developed with input from NAMCO. Sales of other titles, however, failed to reach targets: *R: RACING EVOLUTION*, *Family Stadium 2003*, *Tales of Symphonia* and *Baten Kaitos*.

In Amusement Facility Operations, prize-crane pusher games, medal-collecting games and photo-seal printing machines proved the most popular with visitors to NAMCO amusement facilities, while NAMCO's food theme parks attracted attention for their

ability to draw in customers and revitalize local economies. All these theme parks performed well in terms of both customer footfall and operating results.

Sales in Japan increased ¥12,834 million or 11.1%, to ¥128,178 million. Operating income jumped ¥4,666 million or 38.9%, to ¥16,664 million.

North America

In Coin-Operated Game Machines, *Time Crisis 3* and *Ms. Pac-Man/Galaga* sold well, while titles licensed from partners such as *TOKYO COP*, *SPACE INVADERS/QIX* and *FLAMIN' FINGER* posted robust sales. The distribution of game content for mobile phones also expanded steadily during the year under review.

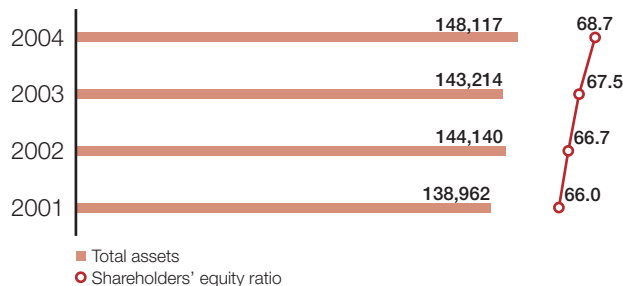
In Home Videogame Software, *Soul Calibur II* was a key title driving sales. Other titles recording healthy growth in fiscal 2004 included *Kill.Switch*, *Pac-Man World 2*, *Namco Museum*, and a lower-priced version of *Ace Combat 04*.

In Amusement Facility Operations, NAMCO continued to implement a number of initiatives such as expansion of the revenue-sharing network, the closure of unprofitable sites and cost-reduction measures. This paid off with full-year results ahead of initial targets. As of March 31, 2004, after the closure of 36 unprofitable locations, there were 1,172 amusement facilities in North America, including 206 directly managed locations and 966 operating under revenue-sharing agreements.

Sales in the region grew ¥4,478 million or 13.4%, to ¥37,842 million, and operating income surged ¥1,724 million or 89.0%, to ¥3,661 million.

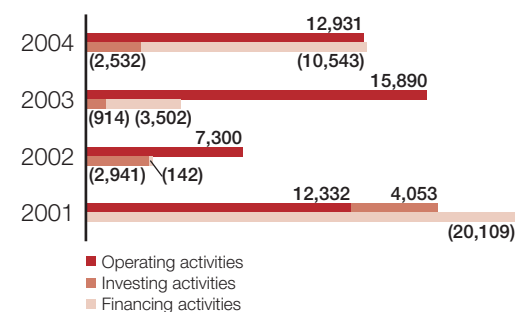
Total assets and Shareholders' equity ratio

(Millions of yen/%)



Cash flows

(Millions of yen)



Europe

In Coin-Operated Game Machines, *Time Crisis 3* and *Pac-Man Ball* performed well, while the distribution of game content for mobile phones also expanded.

In Amusement Facility Operations, NAMCO sold NAMCO Operations France S.A., withdrawing from amusement facility management in France. As of March 31, 2004, there were 12 amusement facilities in Europe, 10 directly managed locations and two operating under revenue-sharing agreements.

Sales in Europe increased ¥577 million or 10.6%, to ¥6,019 million. Operations in the region recorded operating income of ¥111 million, reversing the operating loss of ¥16 million in the previous period.

Asia

Although there was a tough start to the year in Amusement Facility Operations due to the impact of SARS in Hong Kong, where some locations were temporarily closed in April and May 2003, sales recovered after the announcement that the outbreak had been brought under control. As of March 31, 2004, there were 24 amusement facilities in Asia, 15 directly managed locations and nine operating under revenue-sharing agreements.

Sales in Asia declined ¥72 million or 11.5%, to ¥555 million, and operating income was ¥13 million, reversing the operating loss of ¥33 million in the previous period.

Liquidity and Capital Resources

Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2004 stood at ¥148,117 million, an increase of ¥4,903 million or 3.4%, from the previous fiscal year-end. This chiefly reflected a rise in current assets of ¥5,525 million or 8.1%, to ¥73,614 million.

The increase in current assets was mainly attributable to a year-on-year rise in inventories of ¥6,462 million or 47.9%, to ¥19,944 million, due to items such as work-in-progress, including new software titles scheduled for release in fiscal 2005. Property and equipment, net stood at ¥35,759 million, ¥105 million or 0.3%, more than at the end of fiscal 2003. Other assets decreased ¥727 million or 1.8%, to ¥38,744 million.

Total liabilities fell ¥1,316 million or 2.9%, to ¥43,498 million. This mainly reflected a decline of ¥7,253 million or

84.7%, in the current portion of long-term debt, to ¥1,313 million, due primarily to the redemption of convertible bonds totaling ¥7,178 million.

Total shareholders' equity increased ¥5,164 million or 5.3%, to ¥101,811 million. The shareholders' equity ratio improved 1.2 percentage points from 67.5% to 68.7%.

Capital Expenditures and Depreciation

Capital expenditures in the NAMCO Group primarily consists of investment in Amusement Facility Operations. In the year under review, capital expenditures totaled ¥14,009 million, which included ¥10,376 million for Amusement Facility Operations, mainly consisting of expansion and refurbishment of amusement areas, and installation of new equipment at existing facilities as well as for new directly managed facilities and revenue-sharing agreements.

Depreciation is mainly related to amusement facilities and is apportioned evenly in each fiscal year. NAMCO booked depreciation and amortization of ¥11,104 million in the year under review.

Cash Flows

Cash Flows from Operating Activities

Although income before income taxes and minority interests increased ¥5,505 million to ¥13,222 million, there were increases in inventories, amusement facilities and equipment, and other items, reducing cash provided by operating activities to ¥12,931 million, compared with ¥15,890 million one year earlier.

Cash Flows from Investing Activities

Despite proceeds of ¥1,013 million from the sale of investment securities, there were increases in outflows for the payment of leasehold deposits and the acquisition of investment securities, as well as declines in proceeds from sale of property, plant and equipment and the repayment of leasehold deposits. In addition, funds were used for payment for business transfer related to the establishment of NAMCO Tales Studio Ltd. As a result, investing activities used cash of ¥2,532 million, compared with cash used of ¥914 million in the previous year.

Free cash flows, the sum of investing cash flows and operating cash flows, totaled ¥10,399 million in the year under review.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥10,543 million, compared with ¥3,502 million in the previous year. The main components were ¥7,178 million for the redemption of convertible bonds and cash dividends paid of ¥1,649 million.

As a result of the above, cash and cash equivalents as of March 31, 2004 stood at ¥35,548 million, a decline of ¥530 million or 1.5%, compared to March 31, 2003.

Research and Development

NAMCO actively carries out research and development activities in order to create and offer more profitable and highly appealing products and services. During the year under review, total expenses related to Group-wide research and development were ¥19,790 million. This consisted of research and development expenses included in general administrative costs of ¥7,588 million, and content development costs, part of product manufacturing costs, totaling ¥12,202 million.

Research and Development expenses

	Millions of yen
2004	¥19,790
2003	14,581
2002	15,655
2001	10,702

Risk Factors

Risk factors in the NAMCO Group's operating environment that could impact on operating results, share price, financial position and other areas include changes in the geopolitical situation, economic environment and market trends. Other potential risks and uncertainties include, but are not limited to, the following:

(1) Product and service competitiveness

The NAMCO Group carries out its core business in domestic and global markets characterized by rapid technological change and changeable consumer preferences. In these markets, there is no guarantee that NAMCO products and services can be provided as planned or that they can maintain a high level of competitiveness in relation to those supplied by rival companies. Failure or success in this respect could have a significant impact on the NAMCO Group's operating results.

(2) New product development

New product development is positioned as a vital element in driving the development and growth of the NAMCO Group. Consequently, NAMCO channels considerable resources into this area. Although the Group is committed to consistently developing appealing new products, there is no guarantee that the necessary funds can be secured or allocated to new product development, or that investments in development will lead to the creation of competitive new products. There is also no guarantee that the Group will recover the production costs necessary for the development of every new product. Moreover, NAMCO may not be able to recover the production costs of new products recorded as inventories and scheduled for launch in the following fiscal year.

Due to these factors, failure to develop new products without sufficient appeal may have a significant impact on the operating results and financial position of the NAMCO Group.

(3) Exchange rate fluctuations

The NAMCO Group's overseas sales have reached ¥37,879 million in the Americas, ¥13,620 million in Europe, and ¥1,398 million in Asia and Oceania. In addition, NAMCO and nine consolidated subsidiaries carry out business activities in overseas markets. Consequently, fluctuations in exchange rates may have an impact on the operating results of the NAMCO Group.

(4) Future M&A activity and alliances

The NAMCO Group may carry out M&As or enter into alliances with domestic and international partners in order to drive growth, enhance competitiveness or achieve other objectives. The operating results of the NAMCO Group may be significantly affected by the outcome of these M&As and alliances.

(5) Game platform and platform manufacturer trends

The NAMCO Group's Home Videogame Software business may be particularly affected by trends in videogame consoles, also called game platforms, and at manufacturers of these platforms. These trends relate to the capabilities of the product itself, price, promotional strategy and other factors, and may have a significant impact on the operating results of the NAMCO Group.

(6) Changes in laws and regulations

The NAMCO Group is subject to a range of domestic and international laws and regulations related to the entertainment industry, product liability, patents, consumer protection, taxation, personal information, and the environment and recycling, as well as voluntary industry regulations regarding the suitability of entertainment content. Revisions to any of these laws and regulations may have a significant impact on the operating results of the NAMCO Group.

(7) Possible defects in products and services

The NAMCO Group manufactures and supplies its products and services based on internal quality control standards. However, there is no guarantee that all of these products or services do not contain defects or that they will not develop flaws in the future. In the event of a major defect in NAMCO products or services, the operating results of the NAMCO Group may be significantly affected by substantial costs arising from product recalls, product liability damages or other actions. Although the NAMCO Group is covered by insurance for product liability damages, there is no guarantee that this insurance will fully compensate for the entire amount of damages required.

(8) Difficulties in retaining and fostering key personnel

The growth and success of the NAMCO Group is largely dependent on key personnel such as skilled game designers and producers. Consequently, retaining and fostering these kinds of highly trained individuals has a significant bearing on the success of the Group. Failing to retain or foster these human resources may have a significant impact on the operating results of the NAMCO Group.

(9) Protection and management of intellectual property

The NAMCO Group has built up a portfolio of technologies and expertise that set it apart in the marketplace. However, it may not be possible to prevent third parties from imitating patents or trade secrets belonging to NAMCO or its Group companies or from carrying out analytical studies of these assets. Moreover, although the NAMCO Group carries out research and develop-

ment based on sufficient studies of intellectual property rights, new products and services created by NAMCO may infringe third-party intellectual property rights, resulting in legal and other action. The actions of third parties and the results of legal action may have a significant impact on the operating results of the NAMCO Group.

(10) Unauthorized disclosure of personal information

In managing the personal information of users accessing services on Group company Websites or receiving NAMCO distributed game content via their mobile phones, the NAMCO Group is working to protect personal information by controlling access to its customer database and strengthening security systems. NAMCO is also giving due attention to the creation of an internal management framework related to the handling of customer information, including training for employees and other initiatives. However, in the event of unauthorized disclosure of customer information in spite of these measures, the reputation of the NAMCO Group may be harmed, affecting the Group's operating results and share price.

(11) Risks related to the ability to recover leasehold deposits

When opening new facilities or stores in its Amusement Facility Operations and Restaurant Operations, the NAMCO Group pays large leasehold deposits to the lessor. The operating results of the NAMCO Group may be significantly affected in the event that such deposits become unrecoverable due to difficulties such as the bankruptcy of the recipient of the deposit.

Outlook for Fiscal 2005

NAMCO will focus on three key areas in fiscal 2005 to achieve continuous growth as an entertainment company: optimal resource allocation, improvements in profitability at core businesses, and up-front investments in new businesses that will support the medium- and long-term growth of the NAMCO Group.

Underpinned by this approach, for the year ending March 31, 2005, NAMCO is projecting operating income of ¥15.5 billion and net income of ¥8.5 billion, on net sales of ¥188.0 billion.

Consolidated Balance Sheets

NAMCO LIMITED AND SUBSIDIARIES
March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2003	2004	2004
Current assets:			
Cash (Note 3)	¥ 36,219	¥ 35,672	\$ 321,138
Receivables:			
Trade receivables	14,254	14,410	129,726
Allowance for doubtful accounts	(379)	(552)	(4,969)
Net receivables	13,875	13,858	124,757
Inventories (Note 5)	13,482	19,944	179,546
Deferred income taxes—current (Note 9)	1,114	1,228	11,055
Other current assets	3,399	2,912	26,215
Total current assets	68,089	73,614	662,711
Property and equipment:			
Amusement machines and facilities	85,294	83,317	750,063
Buildings and structures	11,143	11,732	105,618
Machinery and equipment	11,509	10,200	91,826
Land	6,965	6,856	61,721
Construction in progress	62	85	765
Accumulated depreciation	(79,319)	(76,431)	(688,072)
Property and equipment, net	35,654	35,759	321,921
Other assets:			
Investment securities, including those of non-consolidated subsidiaries and affiliates (Note 4)	1,094	1,582	14,242
Leasehold deposits (Note 6)	26,087	25,963	233,732
Goodwill	1,028	2,900	26,107
Long-term prepaid expenses	973	1,059	9,534
Deferred income taxes—non-current (Note 9)	4,543	3,778	34,011
Other non-current assets	7,034	4,299	38,703
Allowance for doubtful accounts	(1,288)	(837)	(7,535)
Total other assets	39,471	38,744	348,794
Total assets	¥143,214	¥148,117	\$1,333,426

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2004	2004
Current liabilities:			
Short-term bank loans	¥ 4,556	¥ 2,719	\$ 24,478
Current portion of long-term debt (Note 7)	8,566	1,313	11,820
Trade payables	11,917	13,006	117,087
Other payables	3,328	5,165	46,498
Accrued income taxes (Note 9)	1,653	4,775	42,987
Accrued expenses	3,346	3,540	31,869
Other current liabilities (Note 9)	2,554	3,342	30,086
Total current liabilities	35,920	33,860	304,825
Long-term debt (Note 7)	2,610	2,795	25,162
Allowance for employees' retirement benefits (Note 8)	1,219	1,573	14,165
Other long-term liabilities (Note 9)	5,065	5,270	47,440
Total liabilities	44,814	43,498	391,592
Minority interests in consolidated subsidiaries	1,753	2,808	25,278
Shareholders' equity (Note 10)			
Common stock:			
Authorized—109,685,421 shares			
Issued—55,087,618 shares (2003—55,087,618 shares)	27,369	27,369	246,390
Additional paid-in capital	26,399	26,399	237,657
Retained earnings	43,429	49,195	442,879
Valuation differences on other securities	(65)	230	2,080
Foreign currency translation adjustments	(484)	(967)	(8,705)
	96,648	102,226	920,301
Treasury stock	(1)	(415)	(3,745)
Total shareholders' equity	96,647	101,811	916,556
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥143,214	¥148,117	\$1,333,426

Consolidated Statements of Income

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2004	2004
Net sales	¥154,777	¥172,594	\$1,553,781
Cost of sales	117,248	123,506	1,111,865
Gross profit	37,529	49,088	441,916
Selling, general and administrative expenses (Note 11)	28,059	33,658	303,007
Operating income	9,470	15,430	138,909
Other income:			
Interest and dividends	148	130	1,170
Gain on sales of property and equipment	193	12	108
Gain on sales of investment securities	231	82	738
Other	345	295	2,656
	917	519	4,672
Other expenses:			
Interest	242	131	1,179
Other (Note 12)	2,428	2,596	23,371
	2,670	2,727	24,550
Income before income taxes and minority interests	7,717	13,222	119,031
Income taxes (Note 9):			
Current	1,431	5,385	48,478
Deferred	2,139	319	2,872
Minority interests	31	(28)	(252)
Net income	¥ 4,116	¥ 7,546	\$ 67,933
Per share of common stock:	Yen		U.S. dollars (Note 2)
Net income:			
Primary	¥72.35	¥133.00	\$1.20
Fully diluted	70.12	130.61	1.18
Cash dividends applicable to the year	30.00	40.00	0.36

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2004	2004
Common stock:			
Balance at beginning of year	¥27,369	¥ 27,369	\$246,390
Conversion of convertible bonds	—	—	—
Balance at end of year	27,369	27,369	246,390
Additional paid-in capital:			
Balance at beginning of year	26,399	26,399	237,657
Conversion of convertible bonds	—	—	—
Balance at end of year	26,399	26,399	237,657
Retained earnings:			
Balance at beginning of year	41,251	43,429	390,970
Adjustment arising from merger of consolidated subsidiaries	(95)	—	—
Net income	4,116	7,546	67,933
Cash dividends	(1,763)	(1,650)	(14,854)
Bonuses to directors and statutory auditors	(80)	(130)	(1,170)
Balance at end of year	43,429	49,195	442,879
Valuation differences on other securities:			
Balance at beginning of year	(124)	(65)	(585)
Net change during the year	59	295	2,665
Balance at end of year	(65)	230	2,080
Foreign currency translation adjustments:			
Balance at beginning of year	1,238	(484)	(4,357)
Net change during the year	(1,722)	(483)	(4,348)
Balance at end of year	(484)	(967)	(8,705)
Treasury stock:			
Balance at beginning of year	0	(1)	(9)
Increase during the year	(1)	(414)	(3,736)
Balance at end of year	(1)	(415)	(3,745)
Total shareholders' equity	¥96,647	¥101,811	\$916,556

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED AND SUBSIDIARIES
Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2004	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,717	¥ 13,222	\$119,031
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,227	11,104	99,964
Gain (loss) on sales of property, plant and equipment	(168)	137	1,233
Loss on disposal of property, plant and equipment	1,586	1,241	11,172
Revaluation loss on property, plant and equipment	467	748	6,734
Gain on sales of securities	(226)	-	-
Revaluation loss on securities	429	99	891
Acquisition of amusement machines and facilities	(7,784)	(10,304)	(92,762)
Other non-cash items	38	369	3,322
Changes in operating assets and liabilities:			
Trade receivables	3,764	(486)	(4,375)
Inventories	(610)	(6,136)	(55,239)
Trade payables	693	1,120	10,083
Accrued expenses	(767)	-	-
Accounts payable	94	1,470	13,234
Advance receipts	240	1,015	9,138
Interest and dividends received	148	130	1,170
Interest paid	(253)	(132)	(1,188)
Income taxes paid	(477)	(1,367)	(12,306)
Other, net	(228)	701	6,310
Net cash flows provided by operating activities	15,890	12,931	116,412
Cash flows from investing activities:			
Payments for time deposits	(116)	(5)	(45)
Proceeds from time deposits	54	21	189
Capital expenditures	(1,754)	(1,944)	(17,501)
Payments for acquisition of software	(424)	(370)	(3,331)
Payment of leasehold deposits	(558)	(1,261)	(11,352)
Repayment of leasehold deposits	1,927	1,510	13,594
Proceeds from sale of property, plant and equipment	886	74	666
Acquisition of investment securities	(11)	(302)	(2,719)
Proceeds from sales of investment securities	301	1,013	9,120
Expenditure of long-term prepaid expenses	(104)	(294)	(2,647)
Payment in connection with business transfer	(700)	-	-
Payment for business transfer	-	(609)	(5,483)
Other, net	(415)	(365)	(3,285)
Net cash flows used in investing activities	(914)	(2,532)	(22,794)
Cash flows from financing activities:			
Short-term bank loans, net	(1,381)	(1,702)	(15,322)
Proceeds from long-term bank loans	190	1,750	15,754
Repayments of long-term bank loans	(2,098)	(1,641)	(14,773)
Proceeds from issuance of straight bonds	1,000	-	-
Redemption of convertible bonds	-	(7,178)	(64,620)
Cash dividends paid	(1,763)	(1,649)	(14,845)
Other, net	550	(123)	(1,108)
Net cash flows used in financing activities	(3,502)	(10,543)	(94,914)
Effect of exchange rate changes on cash and cash equivalents	(636)	(386)	(3,475)
Net increase in cash and cash equivalents	10,838	(530)	(4,771)
Cash and cash equivalents at beginning of year	25,240	36,078	324,793
Cash and cash equivalents at end of year (Note 3)	¥36,078	¥ 35,548	\$320,022

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements
March 31, 2003 and 2004

1. Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements of Namco Limited (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The Company and its domestic subsidiaries maintain their books of account in conformity with generally accepted accounting principles in Japan, and its overseas subsidiaries in conformity with those of the United States and with other generally accepted accounting principles based on where the subsidiaries are incorporated. However, it is the opinion of the management of the Company that the accounting principles followed by the overseas subsidiaries do not substantially differ from those followed by the Company, except for methods of depreciation of property and equipment and the amortization of goodwill.

Significant accounting policies are summarized as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries controlled directly or indirectly by the Company. The significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies as well as one non-consolidated subsidiary have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

In order to facilitate consolidation, the subsidiaries have principally adopted an annual fiscal period ending on the last day of February.

(b) Foreign Currency Translation

All receivables and payables denominated in foreign currencies are translated at the exchange rates in effect as of the balance sheet date, and the unrealized gain or loss is reflected in other income (expenses).

The balance sheet accounts of overseas subsidiaries are translated into yen at the year-end rates. Gains and losses resulting from translation are generally excluded from the statements of income and are accumulated under the balance sheet caption "Foreign currency translation adjustments" in "Shareholders' equity."

Revenue and expense accounts of the consolidated overseas subsidiaries are translated into Japanese yen at the average annual exchange rate.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash, bank deposits withdrawable on demand and all highly liquid investments with maturities of three months or less, easily convertible cash without any reduction in principal, to be cash and cash equivalents.

(d) Investment Securities

The Company classifies its securities into one of the following three categories; trading, held-to-maturity, or other securities. Based on this classification system, all of the Company's securities are classified as other securities and included in "Other assets" as "Investment securities."

Other securities with a determinable market value are carried principally at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Valuation differences on other securities" in "Shareholders' equity." Other securities without a determinable market value are carried principally at cost. The cost of other securities sold is principally computed by the moving average-method.

(e) Inventories

Game software of the Company and domestic and overseas subsidiaries is stated by the specific cost method. Inventories other than game software of the Company and the domestic subsidiaries are stated at cost determined by the moving-average method, as adjusted for any substantial and permanent decline in value. Inventories other than game software of the overseas subsidiaries are stated at the lower of cost (principally by the first-in, first-out method) or market (at net realizable value).

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally by the declining-balance method for assets held by the Company and its domestic subsidiaries at rates based on the following estimated useful lives:

Amusement machines and facilities	3–15 years
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Depreciation is computed by the straight-line method for assets held by the overseas subsidiaries at rates based on the following estimated useful lives:

Amusement machines and facilities	2–7 years
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(g) Goodwill

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in business combinations. Goodwill incurred by domestic subsidiaries is amortized over 5 years using the straight-line method in conformity with rules of practice set by the Commercial Code in Japan.

Goodwill incurred by foreign subsidiaries is amortized in conformity with accounting principles and practices generally accepted in the country of incorporation.

(h) Research and Development Expenses

Research and development expenses are charged to income as selling, general and administrative expenses of the period in which they are incurred. When management of the Company indicates its intention to produce and market a product, the related research and development expenses are accounted for as production costs.

(i) Retirement Benefits

The Company and its domestic subsidiaries have adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, an allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension plan assets.

Actuarial gains and losses are amortized by the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining years of service of the participating employees. Most overseas subsidiaries have various retirement plans, principally defined contribution plans, covering substantially all their employees.

Prior service cost is amortized as incurred by the straight-line method over a period (10 years) which falls within the estimated average remaining years of service of the participating employees.

While the Company has no legal obligation to do so, it is customary practice in Japan to make lump-sum payments to directors or statutory auditors upon retirement, with the approval of the shareholders at the annual shareholders' meeting. In accordance with the Company's established guidelines, the amount of this allowance is computed based upon payment factors determined by the position and length of service as a director or statutory auditor. The allowance for retirement benefits for directors and statutory auditors as required under the plan has been provided at estimated amounts of ¥2,224 million and as ¥2,258 million (U.S.\$20,328 thousand) at March 31, 2003 and 2004, respectively, and is included in "Other long-term liabilities."

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the years ended March 31, 2003 and 2004 with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in the statutory tax rate is recognized in income in the period which includes the enactment date.

(k) Net Income and Cash Dividends per Share

In computing primary net income per share, the weighted-average number of shares of common stock outstanding during each year has been used.

The computation of fully diluted net income per share reflects the effect of common shares contingently issuable upon the conversion of convertible bonds as if such bonds had been converted at the beginning of the year or at the time of issue in the case of newly issued bonds after giving effect to the elimination of interest expense, less the related income tax effect, applicable to the convertible bonds.

Cash dividends per share represent dividends declared as applicable to each respective year.

(l) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform them to the presentation for the year ended March 31, 2004.

2. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥111.08=U.S.\$1.00, the approximate exchange rate in effect on May 31, 2004.

This translation should not be construed as a representation that the yen amounts shown could be converted into U.S. dollars at that or any other rate.

3. Cash and Cash Equivalents

A reconciliation of cash in the consolidated balance sheets and cash and cash equivalents in the statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash	¥36,219	¥35,672	\$321,138
Time deposits with maturities greater than three months	(141)	(124)	(1,116)
Cash and cash equivalents	¥36,078	¥35,548	\$320,022

4. Investment Securities

The acquisition cost, carrying amount (market value) and gross unrealized holding gain or loss on other securities with a determinable market value are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2003:				
Other securities:				
Equity securities	¥411	¥ 34	¥ 97	¥348
Other	286	—	48	238
	¥697	¥ 34	¥145	¥586

2004:

Other securities:				
Equity securities	¥200	¥261	¥ 5	¥456
Other	286	69	—	355
	¥486	¥330	¥ 5	¥811

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)

2004:

Other securities:				
Equity securities	\$1,801	\$2,350	\$45	\$4,105
Other	2,574	621	—	3,196
	\$4,375	\$2,971	\$45	\$7,301

The following is a summary of non-marketable securities:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Other securities:			
Equity securities	¥213	¥207	\$1,864

Investments in non-consolidated subsidiaries and affiliates, which are included in "Investment securities, were ¥295 million and ¥564 million (U.S.\$5,077 thousand) at March 31, 2003 and 2004, respectively.

Proceeds, gross realized gains and losses on the sales of other securities for the years ended March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Proceeds	¥301	¥31	\$279
Gross realized gains	231	1	9
Gross realized losses	4	48	432

5. Inventories

Inventories at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Merchandise and products	¥ 3,148	¥ 3,216	\$ 28,952
Raw materials	1,430	2,013	18,122
Work in process	8,177	13,656	122,938
Supplies	727	1,059	9,534
	¥13,482	¥19,944	\$179,546

6. Leasehold Deposits

Leasehold deposits at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deposits for amusement facility and restaurant operations	¥20,232	¥20,053	\$180,528
Deposits for office space	1,365	1,570	14,134
Other deposits	4,490	4,340	39,070
	¥26,087	¥25,963	\$233,732

Leasehold deposits do not bear interest and are generally refundable when the respective lease is terminated.

The Company operates its amusement facilities and restaurants on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility and restaurant operations for the years ended March 31, 2003 and 2004 amounted to ¥18,025 million and ¥17,752 million (U.S.\$159,813 thousand), respectively.

7. Long-term Debt

Long-term debt at March 31, 2003 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
0.9% unsecured convertible bonds due September 30, 2003 convertible into common stock at ¥3,106 per share	¥ 7,178	¥ —	\$ —
0.4% unsecured straight bonds	1,000	1,000	9,003
Bank loans	2,448	2,558	23,028
Other	550	550	4,951
	11,176	4,108	36,982
Current portion	(8,566)	(1,313)	(11,820)
	¥ 2,610	¥ 2,795	\$ 25,162

The aggregate annual maturities of long-term debt outstanding subsequent to March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
2005	¥1,313	\$11,820
2006	1,569	14,125
2007	929	8,363
2008	172	1,548
Later years	125	1,126
	¥4,108	\$36,982

8. Employees' Retirement Benefits

The plan's funded status and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Retirement benefit obligation	¥ 5,697	¥ 6,425	\$ 57,840
Plan assets at fair value	(2,899)	(3,529)	(31,773)
Retirement benefit obligation in excess of plan assets	2,798	2,896	26,067
Unrecognized actuarial loss	(1,579)	(1,162)	(10,460)
Unrecognized prior service cost	—	(160)	(1,442)
Allowance for employees' retirement benefits	¥ 1,219	¥ 1,573	\$ 14,165

Net periodic benefit cost for the years ended March 31, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥458	¥549	\$4,943
Interest cost on retirement benefit obligation	113	105	945
Estimated return on plan assets	(78)	(61)	(549)
Amortization of unrecognized prior service cost	—	16	144
Amortization of unrecognized actuarial loss	64	112	1,008
Net periodic benefit cost	¥557	¥721	\$6,491

The actuarial assumptions and basis for the calculation of retirement benefits are as follows:

	2003	2004
Method of benefit attribution	"benefit/year-of-service" approach	
Discount rate	2.0%	2.0%
Estimated rates of return on plan assets	2.8%	2.2%
Period of amortization of unrecognized actuarial gain or loss	Actuarial gain or loss is amortized by the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining years of service of the participating employees.	
Prior service cost	Prior service cost is amortized as incurred by the straight-line method over a period (10 years) which falls within the estimated average remaining years of service of the participating employees.	

9. Income Taxes

The Company is subject to Japanese corporate, inhabitants' and enterprise taxes based on income, which, in the aggregate, resulted in a statutory tax rate of approximately 42% for the years ended March 31, 2003 and 2004.

Income taxes of overseas consolidated subsidiaries are based on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2003 and 2004 differs from the Japanese statutory tax rate primarily because of the effects of permanently non-deductible expenses.

A reconciliation of the Japanese statutory tax rate and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2003 and 2004 is as follows:

	2003	2004
Japanese normal income tax rate	42.0 %	42.0 %
Increase (reduction) in income taxes resulting from:		
Valuation allowance	1.8	4.2
Inhabitants' per capita taxes	2.7	1.6
R&D, IT investment credits	—	(5.5)
Other	(0.2)	0.8
Effective income tax rates	46.3 %	43.1 %

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2003 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Depreciation and amortization	¥1,888	¥ 1,223	\$ 11,010
Tax loss carryforwards	1,053	1,390	12,514
Allowance for retirement benefits for directors and statutory auditors	901	915	8,237
Loss on devaluation of inventories	500	445	4,006
Allowance for employees' retirement benefits	454	609	5,483
Loss on devaluation of securities	154	164	1,476
Accounts payable and accrued expenses	379	370	3,331
Reserve for possible loan losses	238	329	2,962
Other	456	737	6,635
Total gross deferred tax assets	6,023	6,182	55,654
Valuation allowance	(366)	(1,176)	(10,587)
Total net deferred tax assets	5,657	5,006	45,067
Deferred tax liabilities:			
Revaluation of property and equipment	(57)	(57)	(513)
Other	(54)	(57)	(514)
Total gross deferred tax liabilities	(111)	(114)	(1,027)
Net deferred tax assets	¥5,546	¥ 4,892	\$ 44,040

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets—current	¥1,114	¥1,228	\$11,055
Deferred tax assets—non-current	4,543	3,778	34,011
Deferred tax liabilities—current (included in other current liabilities)	(43)	(55)	(495)
Deferred tax liabilities—non-current (included in other long-term liabilities)	(68)	(59)	(531)
	¥5,546	¥4,892	\$44,040

10. Shareholders' Equity

The Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated to the legal reserve until the aggregate amount of additional paid-in capital and the legal reserve equals 25% of common stock. The legal reserve of Namco Limited was ¥1,435 million (U.S.\$12,919 thousand) at March 31, 2003 and 2004, and is included in retained earnings.

Of the total amount of additional paid-in capital and legal reserve, ¥6,842 million (U.S.\$61,595 thousand) representing 25% of common stock at March 31, 2004 is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

Cash dividends and directors' and statutory auditors' bonuses charged to retained earnings during the years ended March 31, 2003 and 2004 represent dividends and bonuses paid out during each period.

The accompanying consolidated financial statements do not include any provision for a dividend of ¥25 per share aggregating ¥1,372 million (U.S.\$12,351 thousand) or for the bonuses to directors and statutory auditors aggregating ¥215 million (U.S.\$1,936 thousand) which were declared in June 2004.

11. Research and Development Expenses

The total amount of expenses of the Research and Development Department for the years ended March 31, 2003 and 2004 amounted to ¥14,581 million and ¥19,790 million (U.S.\$178,160 thousand), respectively. ¥5,710 million and ¥7,588 million (U.S.\$68,311 thousand) were charged to selling, general and administrative expenses in 2003 and 2004, respectively.

12. Other Expenses

The composition of other expenses—other for the years ended March 31, 2003 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Loss on devaluation of securities	¥ 429	¥ 99	\$ 891
Foreign exchange loss	100	239	2,152
Amortization of goodwill	24	485	4,366
Loss on impairment of goodwill	17	—	—
Loss on restructuring of overseas business	—	243	2,188
Loss on disposal of property and equipment	161	233	2,098
Loss on sale of property and equipment	—	149	1,341
Provision for doubtful accounts in connection with other assets	135	75	675
Additional retirement payments	162	—	—
Loss on devaluation of property and equipment	467	748	6,734
Loss on devaluation of inventories	347	—	—
Other	586	325	2,926
	¥2,428	¥2,596	\$23,371

13. Contingent Liabilities

At March 31, 2003 and 2004 contingent liabilities for loans guaranteed by the Company amounted to ¥8 million and ¥2 million (U.S.\$18 thousand), respectively.

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes

at banks. At March 31, 2003 and 2004, the Company was contingently liable with respect to trade notes receivable discounted in amounts of ¥18 million and ¥2 million (U.S.\$18 thousand), respectively. Discounted notes are removed from the balance sheets.

In the opinion of management of the Company, it is not anticipated that any substantial loss will result from these contingencies.

14. Segment Information

(a) Business Segment Information

The Company and its subsidiaries operate in six business segments, as indicated below.

Certain corporate administrative expenses have not been allocated to the segments due to the nature of the expense.

	Millions of yen							Consolidated
	Business segments							
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Elimination or Corporate Items	
2003:								
Net sales to customers	¥75,900	¥16,255	¥42,476	¥3,827	¥10,132	¥ 6,187	¥ –	¥154,777
Intersegment sales	259	353	–	167	212	381	(1,372)*	–
Total	76,159	16,608	42,476	3,994	10,344	6,568	(1,372)	154,777
Operating expenses	71,385	15,427	33,279	3,960	10,755	7,591	2,910	145,307
Operating income (loss)	¥ 4,774	¥ 1,181	¥ 9,197	¥ 34	¥ (411)	¥ (1,023)	¥ (4,282)**	¥ 9,470
Identifiable assets	¥52,691	¥12,188	¥25,351	¥3,135	¥ 9,876	¥10,700	¥29,273***	¥143,214
Depreciation and amortization	8,865	216	948	132	335	622	109	11,227
Capital expenditures	7,999	131	1,082	335	247	201	381	10,376
2004:								
Net sales to customers	¥79,891	¥26,991	¥44,768	¥4,430	¥10,587	¥ 5,927	¥ –	¥172,594
Intersegment sales	253	484	181	105	182	606	(1,812)*	–
Total	80,144	27,475	44,949	4,535	10,769	6,533	(1,812)	172,594
Operating expenses	73,247	20,783	37,924	4,434	10,578	7,153	3,043	157,164
Operating income (loss)	¥ 6,897	¥ 6,692	¥ 7,025	¥ 101	¥ 191	¥ (620)	¥ (4,855)**	¥ 15,430
Identifiable assets	¥52,996	¥15,555	¥28,477	¥3,466	¥ 9,356	¥ 9,257	¥29,010***	¥148,117
Depreciation and amortization	8,652	220	1,465	130	276	246	116	11,104
Capital expenditures	10,489	231	1,487	281	93	743	684	14,009

	Thousands of U.S. dollars							
	Business segments						Elimination or Corporate Items	Consolidated
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other		
2004:								
Net sales to customers	\$719,220	\$242,987	\$403,025	\$39,881	\$95,310	\$53,358	\$ –	\$1,553,781
Intersegment sales	2,278	4,358	1,629	945	1,638	5,455	(16,313)	–
Total	721,498	247,344	404,654	40,826	96,948	58,813	(16,313)	1,553,781
Operating expenses	659,408	187,099	341,411	39,917	95,229	64,395	27,394	1,414,872
Operating income (loss)	\$ 62,090	\$ 60,245	\$ 63,243	\$ 909	\$ 1,719	\$ (5,582)	\$ (43,707)	\$ 138,909
Identifiable assets	\$477,098	\$140,034	\$256,365	\$31,203	\$84,228	\$83,336	\$261,163	\$1,333,426
Depreciation and amortization	77,890	1,981	13,189	1,170	2,485	2,215	1,044	99,964
Capital expenditures	94,427	2,080	13,387	2,530	837	6,689	6,158	126,116

* Elimination of intersegment sales.

** Includes unallocated administrative expenses of ¥4,176 million in 2003 and ¥4,746 million (U.S.\$42,726 thousand) in 2004.

*** Assets included in Elimination or Corporate Items consisted primarily of surplus money (cash and deposits) of the Company, long-term investment funds (investment securities) and other assets in the Administration Department which amounted to ¥35,109 million in 2003 and ¥34,406 million (U.S.\$309,741 thousand) in 2004.

(b) Geographical Segment Information

Geographical segment information for the Companies' operations (sales within Japan and outside Japan) is summarized as follows:

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2003:						
Net sales to customers	¥115,344	¥33,364	¥5,442	¥627	¥ –	¥154,777
Intersegment sales	2,221	104	6	7	(2,338)*	–
Total	117,565	33,468	5,448	634	(2,338)	154,777
Operating expenses	105,567	31,531	5,464	667	2,078	145,307
Operating income (loss)	¥ 11,998	¥ 1,937	¥ (16)	¥ (33)	¥ (4,416)**	¥ 9,470
Identifiable assets	¥ 87,128	¥20,395	¥5,965	¥177	¥29,549***	¥143,214

2004:

Net sales to customers	¥128,178	¥37,842	¥6,019	¥555	¥ –	¥172,594
Intersegment sales	3,507	238	2	–	(3,747)*	–
Total	131,685	38,080	6,021	555	(3,747)	172,594
Operating expenses	115,021	34,419	5,910	542	1,271	157,164
Operating income	¥ 16,664	¥ 3,661	¥ 111	¥ 13	¥ (5,018)**	¥ 15,430
Identifiable assets	¥ 94,011	¥17,880	¥6,574	¥151	¥29,500***	¥148,117

	Thousands of U.S. dollars					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2004:						
Net sales to customers	\$1,153,925	\$340,673	\$54,186	\$4,996	\$ –	\$1,553,781
Intersegment sales	31,572	2,143	18	–	(33,732)	–
Total	1,185,497	342,816	54,204	4,996	(33,732)	1,553,781
Operating expenses	1,035,479	309,858	53,205	4,879	11,443	1,414,872
Operating income	\$ 150,018	\$ 32,958	\$ 999	\$ 117	\$ (45,175)	\$ 138,909
Identifiable assets	\$ 846,336	\$160,965	\$59,183	\$1,359	\$265,574	\$1,333,426

* Elimination of intersegment sales.

** Includes unallocated administrative expenses of ¥4,176 million in 2003 and ¥4,746 million (U.S.\$42,726 thousand) in 2004.

*** Assets included in Elimination or Corporate Items consisted primarily of surplus money (cash and deposits) of the Company, long-term investment funds (investment securities) and other assets in the Administration Department which amounted to ¥35,109 million in 2003 and ¥34,406 million (U.S.\$309,741 thousand) in 2004.

(c) Overseas Sales Information

Overseas sales of the Company and its subsidiaries for the years ended March 31, 2003 and 2004 amounted to ¥48,979 million (31.6% of consolidated net sales) and ¥52,898 million (U.S.\$476,215 thousand, or 30.6% of consolidated net sales), respectively.

Report of Independent Auditors



The Board of Directors
Namco Limited

We have audited the accompanying consolidated balance sheets of Namco Limited and consolidated subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Namco Limited and consolidated subsidiaries at March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

A handwritten signature in black ink that reads "Shin Nihon & Co". The script is fluid and cursive, with the letters "Shin", "Nihon", and "Co" clearly legible.

June 28, 2004

Corporate Directory

NAMCO LIMITED

Corporate Headquarters
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Phone: 81-3-3756-2311
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Sales and Operations Division

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Tamagawa Branch Office

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Yokohama Creative Center

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Facsimile: 1-408-321-0520
December 2004~
4555 Great America Parkway, Santa
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Facsimile: 81-3-5482-7216

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Mil Ltd.

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Facsimile: 81-3-3756-1088

St. Tropez Ltd.

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Facsimile: 81-3-5562-5418

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Facsimile: 81-138-57-4700

(As of June 30, 2004)

Corporate Data

Corporate Name

NAMCO LIMITED

Date of Establishment

June 1, 1955

Capital

¥27,369 million

Number of Employees

2,260

Independent Certified Public Accountants

Shin Nihon & Co.

Investor Information

Common Stock

Authorized—109,685,421 shares

Issued—55,087,618 shares

Number of Shareholders

17,616

Listing of the Company's Shares

First Section of the Tokyo Stock Exchange

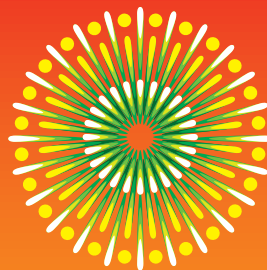
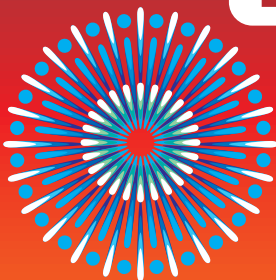
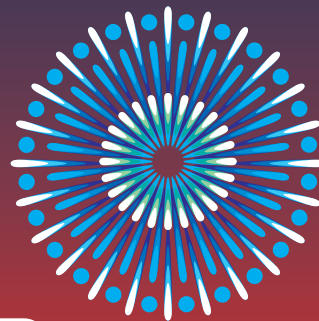
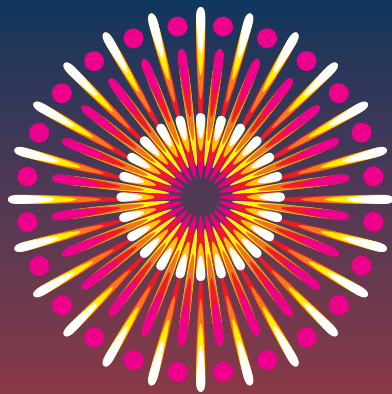
Composition of Shareholders

	Shares	(%)
Financial Institutions	18,858,550	34.24
Individuals/Other	16,406,007	29.78
Foreign Investors	11,821,527	21.46
Other Corporations	7,130,187	12.94
Securities Companies	871,347	1.58

Major Shareholders

Shareholder's Name	Shares	Voting rights (%)
Masaya Nakamura	9,180,000	16.73
MAL Ltd.	6,755,100	12.31
Japan Trustee Services Bank, Ltd. (Trust Account)	5,974,700	10.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,143,400	5.73
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	1,181,700	2.15
The Chase Manhattan Bank NA London SL (Omnibus Account)	1,067,000	1.94
The Sumitomo Trust & Banking Co., Ltd. (Trust Account B)	1,040,500	1.90
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	837,800	1.53
Mitsui Asset Trust and Banking Company, Limited (Individually Operated Designated Money Trusts)	657,500	1.20
Investors Bank & Trust Company (West)-Treaty	630,863	1.15

(As of March 31, 2004)



NAMCO LIMITED

CORPORATE HEADQUARTERS

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